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RUEAIIA/CIA WASHDC
RHEFDIA/DIA WASHDC
RUEHVEN/USMISSION USOSCE 1884
RHEHNSC/NSC WASHDC
RUEKJCS/JOINT STAFF WASHDC
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RUCNDT/USMISSION USUN NEW YORK 0620
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RUEKJCS/SECDEF WASHDC
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STATE FOR SCA/CEN, INL, S/CT, EEB
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DUSHANBE FOR DEA
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SUBJECT: TURKMENISTAN 2007-2008 INTERNATIONAL NARCOTICS CONTROL
STRATEGY REPORT (INCSR) PART II, MONEY LAUNDERING AND FINANCIAL
CRIMES

Ref: SECSTATE 138130

11. This is the 2007-2008 INCSR Part II report on Turkmenistan. The text is keyed to the questions in reftel. The Post's point of contact for the INCSR, Part II draft is Kristine Marsh, Economic Officer (MarshKA@state.gov).

GENERAL

12. Turkmenistan is not an important regional financial center. It has only one international bank and a small, underdeveloped financial sector. Foreign companies operate (but do not own) four hotels and casinos in Turkmenistan. These entities could be vulnerable to financial fraud and used for money laundering. The national currency, the Turkmenistan Manat, has an unofficial, but generally accepted, exchange rate that is four times the official rate, creating an environment where money laundering is possible.

OFFSHORE FINANCIAL CENTERS

13. Turkmenistan has no offshore companies or banks.

FREE TRADE ZONES

14. The current Law on Free Economic Zones in Turkmenistan adopted in 1993, and amended in 1994, determines the legal regime for conducting business in these zones, guarantees the rights of both foreign and domestic investors, forbids nationalization of enterprises and discrimination against foreign investors, and provides guarantees to foreign investors for exporting production and repatriating after-tax profits. All related enterprises are exempt from taxes on profits for the first three years of profitable operation. All goods and properties must be declared when imported

into or exported from free economic zones. There are ten free economic zones in Turkmenistan.

¶15. In May 2007 Turkmenistan introduced a National Tourism Zone (NTZ) heavily promoted by President Berdimuhamedov to encourage tourism development at a site on the Caspian Sea shore. Tax and other incentives are provided in the new legislation passed on October 1, but only to those willing to invest in construction of hotels and recreational facilities. The amendments to the Tax Code passed on October 1 exempt construction and installation of tourist facilities in the NTZ from the Value Added Tax (VAT). Various services of tourist facilities, including catering and accommodation, are also VAT exempt. Income tax on accommodation and catering of tourist facilities will not be levied for the first 15 years.

LAWS AND REGULATIONS TO PREVENT MONEY LAUNDERING AND THE FINANCING OF TERRORISM

¶16. The Turkmen Criminal Code of June 12, 1997, Article 242 (Legalization of illegally obtained funds or other property) prohibits money laundering.

¶17. The Government of Turkmenistan is working on new anti-money laundering legislation. In 2007, the Government agreed to work with the World Bank to review its draft anti-money laundering legislation and establish a Financial Intelligence Unit (FIU).

¶18. Turkmenistan's Banking Law of 1993 prevents disclosure of client and ownership information by domestic and offshore financial services companies to bank supervisors and law enforcement authorities. However, it permits disclosure of such information upon official request of courts and investigative agencies.

¶19. According to Turkmenistan's National Drug Program for 2006-2010, development and adoption of national money laundering legislation

ASHGABAT 00001226 002 OF 004

was to have taken place in 2006-2007. Current laws don't provide for establishment and funding of an FIU. In 2007 the Government agreed to work with the World Bank to establish an FIU in Turkmenistan.

FINANCIAL SECTOR

¶10. The Banking Supervision Department of the Central Bank of Turkmenistan (CBT) supervises financial institutions for compliance with anti-money laundering/counter-terrorist laws and regulations.

¶11. Presidential Resolution No. 0210/02-2 of October 17, 1995, gives the CBT authority over all international financial transactions. Under this resolution, any entity making an electronic transfer of funds to an account abroad must provide documentation establishing the source of the money. The CBT regulations also permit an individual to transfer funds abroad of no more than \$15,000 every three months. Presidential Decree No. 5976 of November 20, 2002, "Strengthening the Regulations of Turkmen Bank Operations Carried Out in Foreign Currency," orders Turkmenistan banks to carry out correspondent, deposit, investment and other operations in foreign currency outside Turkmenistan only through open correspondent accounts in the CBT or State Foreign Economic Relations Bank (Vneshekonombank).

¶12. There are no non-banking financial institutions other than one state-controlled insurance company. The Ministry of National Security (MNB), the State Tax Service and Ministry of Internal Affairs (MVD) departments for fighting economic crimes supervise the insurance company.

¶13. All financial institutions are required to report suspicious transactions. In addition, the CBT ultimately supervises all bank transactions.

FINANCIAL INTELLIGENCE UNIT/INVESTIGATIONS

¶14. The country does not have an established Financial Intelligence Unit (FIU). However, the MVD's Economic Crimes Department has criminal and investigative responsibilities comparable to an FIU.

¶15. Under the 2006-2010 National Drug Program, Turkmenistan foresees the establishment of special units for controlling

financial transactions to strengthen anti-money laundering measures, including asset forfeiture related to illegal drug trafficking.

¶16. The MVD, MNB, and Prosecutor's Office are responsible for investigating financial crimes, including money laundering and terrorist financing.

¶17. To strengthen control over government assets, President Berdimuhamedov signed a decree on establishing a Supreme Auditing Chamber of Turkmenistan in July 2007. The Chamber is responsible for overseeing financial and economical activities by government institutions and ensuring proper, lawful, and effective use of state property and funds.

¶18. The Embassy regularly provides terrorist financing information regarding UN and U.S.-designated individuals and organizations subject to asset forfeiture to the Ministry of Foreign Affairs (MFA). The MFA reports that it distributes this information to the Ministry of Economy and Finance, MNB, MVD, and other concerned agencies.

CROSS BORDER TRANSPORTATION OF CURRENCY AND NEGOTIABLE INSTRUMENTS

¶19. The statutory requirements for limiting or monitoring the cross-border transportation of currency and monetary instruments are

ASHGABAT 00001226 003 OF 004

stipulated in the Turkmenistan Customs Code. The Customs declaration forms are used at the border crossings for cross-border currency reporting requirements for both inbound and outbound currency.

¶20. Post does not have specific reports on cash smuggling. However, gasoline and other commodities are smuggled routinely across the national border. Hence, there is a possibility of smuggling other items, including cash.

ASSET FORFEITURE AND SEIZURE LEGISLATION

¶21. Presidential Decree No. 6097 of January 24, 2003, authorizes the Turkmenistan Supreme Court to open a centralized deposit account at the CBT for receiving payments from illegal enrichment, compensation of material loss, or other assets obtained illegally and seized during inspection, investigation, and court trials for all crimes, including organized crime, drug-trafficking, and terrorist financing. The assets will remain in the Supreme Court account until the announcement of the court's final verdict on the case or until another decision is made.

¶22. The Turkmenistan Antiterrorism Law of August 15, 2003, authorizes the government to freeze resources and/or other financial assets, deposits, economic resources, and material values of individuals who commit or attempt to commit terrorist acts, or contribute to their commitment; organizations directly or indirectly placed under ownership or under control of such individuals; and individuals and organizations acting on behalf of the above individuals and organizations, including any assets acquired or received through the use of property directly or indirectly belonging to or controlled by such individuals and/or organizations.

¶23. According to the 2006-2010 National Drug Program, Turkmenistan plans to establish special units in 2007 that will have the right to seize assets derived from illicit drug trading.

INTERNATIONAL COOPERATION

¶24. Under the 2006-2010 National Drug Program, Turkmenistan plans to strengthen cooperation with foreign law enforcement agencies in the area of narcotics trafficking. The plan includes providing judicial assistance to foreign competent agencies in collecting evidence, sharing information, and providing evidence in accordance with national legislation and international agreements.

¶25. Turkmenistan's counterterrorism laws require Turkmenistan to cooperate with foreign states and international organizations in

terrorism matters and render assistance to other states in criminal investigations and prosecutions of individuals involved in financing or supporting terrorist activities.

¶26. The Ministry of Foreign Affairs reports that it distributes information provided by the United States regarding designated individuals and organizations subject to asset forfeiture to the Ministry of Finance, the Ministry of National Security, the Ministry of Internal Affairs, and other concerned agencies.

¶27. In September 2007, the Government of Turkmenistan signed the second amendment to the Department of State's International Narcotics and Law Enforcement program Letter of Agreement on Narcotics Control and Law Enforcement (ALOA).

¶28. The Government of Turkmenistan should enact appropriate legislation and take steps to implement a comprehensive anti-money laundering regime capable of thwarting terrorist financing that

ASHGABAT 00001226 004 OF 004

conforms to international standards. Turkmenistan should also consider joining or becoming an observer to the new Eurasian Group on Combating Money Laundering and Financing of Terrorism, a Financial Action Task Force (FATF)-style Regional Body established in October 2004. The Government of Turkmenistan joined Interpol in September 2005. Turkmenistan is a party to the UN International Convention against Illicit Trafficking in Narcotics Drugs and Psychotropic Substances, the UN Convention against Corruption, the UN Convention against Transnational Organized Crime, and the UN Convention for the Suppression of the Financing of Terrorism.
HOAGLAND